

R 070915Z JAN 08
FM AMEMBASSY DAR ES SALAAM
TO SECSTATE WASHDC 7198
INFO AMEMBASSY NAIROBI
AMEMBASSY KAMPALA
AMEMBASSY KIGALI
AMEMBASSY BUJUMBURA
DEPT OF TREASURY WASHINGTON DC
DEPT OF COMMERCE WASHINGTON DC

UNCLAS DAR ES SALAAM 000014

SIPDIS

DEPT AF/E FOR JLIDDLE, ALSO FOR AF/EPS FOR ABREITER

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [TZ](#)

SUBJECT: TANZANIA DECEMBER 2007 ECONOMIC ROUNDUP: EU TRADE
AGREEMENT, GOVT BORROWING, GDP UP, COUNTERFEITS

December 2007 Economic Issues

11. In this issue:

- Concerns on EU Trade Agreement
- Government Heavy Borrowing
- GDP on the Rise, Standard of Living Stagnant
- Counterfeit Mobile Phones Flood Shops

Concerns on EU Trade Agreement

12. Following the signing of an interim trade framework agreement between member states of the East African Community (EAC) and the European Union, there is now a shift of focus to how the various sectors will adapt to the new realities. Key among these is the financial sector, which includes commercial bank lending, microfinance lending, and increasingly, share trading at a primary level.

13. The first item on the agenda following the signing of the Economic Partnership Agreement (EPA) framework was a clear reaffirmation of the EAC Customs Union framework. Now EAC institutions--such as the Customs Union and the common market, which many EAC member countries previously viewed as optional---are becoming increasingly important. Discussing various issues with newspaper editors, President Kikwete explained that the Ministry of Trade and Industry has been directed to start an awareness campaign of the parameters and significance of the EPA accord(s).

14. Tanzanian intellectuals, including University of Dar es Salaam professor, Mwesiga Baregu, are criticizing the Government of Tanzania (GOT) on its decision to accept the EPA, saying the agreement was misleading and will not benefit Tanzania or the other African countries supporting it.

15. Baregu also expressed skepticism over Foreign Affairs and International Cooperation Minister Bernard Membe's statement that Tanzania would join either the Southern African Development Community or East African Community economic partnership agreement, depending on which offered more to the nation. Baregu stressed: "It should be understood that [the] EPA... diverts Africa's attention from its plans to unite Africa and its regional blocs... [The] EPA is something planted by EU in Africa [that] has no meaning to Africa at all." Baregu said if Tanzania or Africa wants an economic relationship with the EU then it has to be a mutually beneficial agreement. "That relationship has to be built anew with regard to the basics of Africa, not otherwise," he said.

16. Ernst and Young submitted two reports on the Bank of Tanzania's (BoT's) External Account on December 23, 2007: one on the Economic Partnership Account (EPA) and the other on a review of the 2005/6

audited accounts. The Controller and Auditor General said he is reviewing the reports and will submit them to President Kikwete in early January 2008.

Government heavy borrowing:

¶17. GOT officials cite heavy government borrowing from domestic financial institutions in the last quarter as one of the chief causes of rising commodity and service prices. The Bank of Tanzania (BoT) October report indicates that inflation rose from 7.8 per cent in August to 8.3 in September 2007. Pressure on the inflation rate is building up against the backdrop of an increase in the government deficit. The BoT report shows that of the Tsh 346.9 billion total resources that were made available for government budgetary operations during August 2007, Tsh 276 billion were from domestic revenues and Tsh 70.9 billion came from grants from development partners.

¶18. The BoT report shows that during the month of August the government financed the deficit by borrowing Tsh 359.9 billion from foreign sources while in September the deficit was financed by borrowing Tsh 65.7 billion from both domestic and foreign sources. Domestic borrowing is carried out mainly through the sale of government papers, like Treasury bills and bonds.

¶19. According to the National Consumer Price Index (NCPI), the inflation rate for November 2007 went up because some prices of both food and non-food items had increased, especially in the categories of soft drinks, mineral water and alcohol. The prices of food items including rice, maize grain, maize flour, wheat flour, bread, spaghetti, cassava, potatoes, cooking bananas, vegetables, meat, cooking oil and coconuts, are also on the rise. The prices of certain non-food items including clothing, furniture, hair creams, bicycles, car batteries and umbrellas have also increased. The increase in prices of essential items caused public concern and skepticism over the government's figure for the current inflation rate (currently between 7.1 and 7.3 percent).

GDP on the Rise, Standard of Living Stagnant: Whither the benefits of economic growth?

¶10. Dr. Ngasongwa, the Minister for Planning, Economy and Empowerment, painted a rosy picture about the country's economic performance on December 20, 2007. He noted, for example, that while the current average Gross Domestic Product growth for African countries stands at 5.5 percent, Tanzanian's projected performance at the end of the current fiscal year (June 30, 2008) is 7.3 percent. While the country's economy is growing, the growth is yet to be reflected in the people's standard of living.

¶11. Ngasongwa noted that while the inflation rate is currently ranging between 7.1 and 7.3 percent, there are indicators that it is going down and may settle at around 6.8 percent by the end of this fiscal year. The country's foreign reserves are enough to facilitate importation of goods for about 5 months. The contribution of the agricultural sector to the economy has declined as the contribution of other sectors to the GDP continues to rise.

Counterfeit Mobile Phones Flood Shops

¶12. Tanzania is considered among the countries in Sub Saharan Africa with highest number of mobile phone subscribers. This may be partially attributed to counterfeit cell phones that are imported or smuggled into the country, mainly from the Far East, and sold at much prices much lower than the market price of brand-name mobile handsets. The number of mobile phone subscribers has gone up from two million in 2004 to almost eight million by November 2007. The GoT alleges that in most cases the fake mobile handsets are ordered by the importers, who takesamples to China and have them

reproduced.

¶13. The Fair Competition Commission has initiated amendments to the outdated Merchandise Marks Act, which provides the legal framework for handling counterfeits. The amendments provide for the appointment by the Minister of Trade of a Chief Inspector to conduct investigations into suspected importers or shops.

GREEN